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MART®

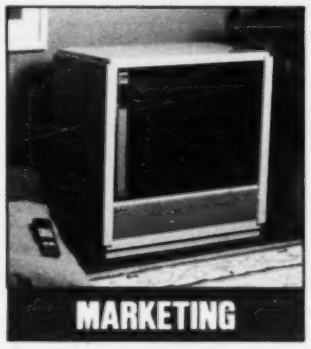
BUSINESS IDEAS FOR TODAY'S RETAILERS AND DISTRIBUTORS

JULY 1986

GORDON PUBLICATIONS — 25th ANNIVERSARY YEAR

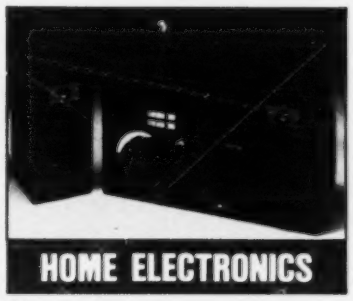
CES WRAP-UP

Chicago show ushers in unique products and a little controversy.



MARKETING

Zenith emphasizes bigger screens and aggressive advertising.



HOME ELECTRONICS

N.A.P. bows 150-plus products and global marketing strategy.

APPLIANCES

Consumer demands are leading to larger, feature-packed refrigerators.

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APASIO 040
SRI CONGRESS INFO SERVICES
JEANNE LONG ACQUIS/EDITOR DIR
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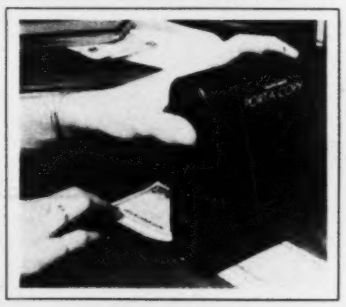
HOME ELECTRONICS



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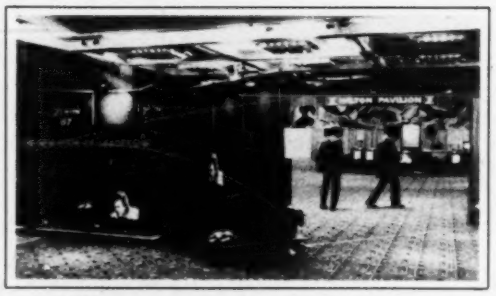

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New consumer needs driving refrigerator design

The changing nature of consumers is leading to larger, more sophisticated refrigeration products. So finds industry giant General Electric, which recently presented the press with an analysis of today's refrigerator industry. Among the company's findings were that average capacity of refrigerators has been growing at a steady rate, and that recent shifts in everything from meal patterns to food packaging are placing new demands on refrigerator design.

John Higgins, GE's general manager of refrigeration products, says the average capacity of refrigerators has been going up at a rate of about one-tenth of a cubic foot every couple of years since 1979, from 18.5 cubic feet that year to 18.9 cubic feet in 1985.

"We think this is a long-term trend," Higgins says. "Consumers are really looking to put as much cubic foot of horsepower in a kitchen cutout as they can, the only limiter being the industry's preferred cutout."

Consumers are also more knowledgeable and more demanding today in choosing a refrigerator, the GE exec says. But before looking at features, among the key factors considered is brand experience. "We find something like 57 percent of consumers will actually repurchase the brand that they have in the house."

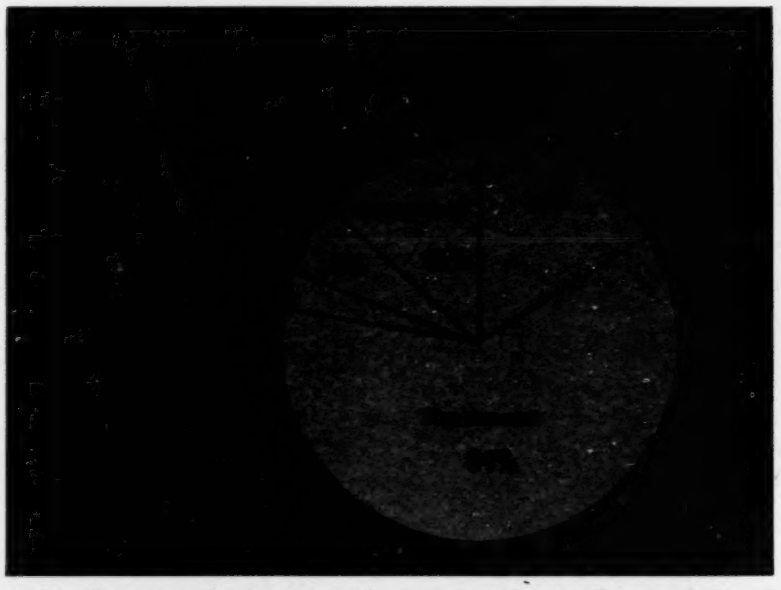
Other primary factors include the amount of kitchen space available and internal capacity. Internal arrangement is also very important. "Customers go into a retailer and open up that refrigerator and they'll stare at it, and what's going through their minds is: 'What are my needs?' They look at the depth of the veg bins, the adjustability of the shelves and whether or not they're removable and easy to clean."

Pricing is obviously another important consideration, along with the attractiveness of the unit and certain features such as no-frost freezer operation. A refrigerator's ability to preserve food and flexibility of temperature and humidity controls are also examined.

Surprisingly, reliability and durability, warranty, service and energy efficiency are secondary purchase considerations to those mentioned above, GE discovered. "I think most consumers tend to think of all refrigerators as being reliable and durable, and everybody has a standard warranty," Higgins points out.

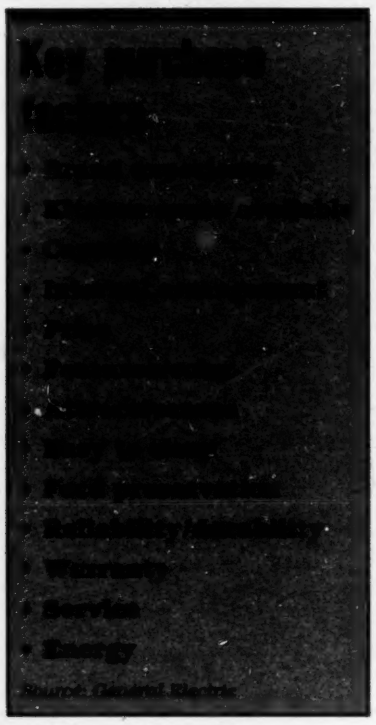
General Electric's study also identified new customer trends. First among these are that women are more busy in general, and more women are now working. Meal patterns are changing, with fragmented meals — members of the family eating separately — becoming more common. Also more common is the "continuous meal" in which people are at the refrigerator more often throughout the day. Both situations place greater demands on refrigerator design.

Consumers are also shopping less frequently, GE found. "People don't want to shop, so they'll load up and try



to do it for two weeks at a time and then do fill-in shopping for milk and bread and so on," Higgins observes. "So you've got tremendous capacity demands on a refrigerator."

Frozen food development is on the upswing due to the popularity of microwave ovens, which are now reaching 60 percent saturation in U.S. households, while fresh foods are also becoming a larger part of American diets, Higgins says. Each of these



creates new space and storage considerations for refrigerator engineers, along with the growing popularity of larger food packages, such as gallon containers for milk and juice.

"We now have to work within common width, height and depth dimensions, and satisfy these trends," Higgins concludes. □

Rob Sabin

GE zeros in on refrigeration

"Focus" is a key word around General Electric these days, says general manager of refrigeration products John Higgins.

According to Higgins, since Roger Schipke became group executive for major appliances in 1982 the company has reassessed its role in the major appliance industry. The result has been a division of the product line into "core" businesses (refrigerators, primary cooking products, dishwashers and home laundry) and non-core businesses (microwave and room air conditioners).

The core businesses became the priority for capital dollars, and more important, Higgins says, for precious talented manpower. Meanwhile, non-core businesses were developed by sourcing from overseas manufacturers who were already producing cost effectively.

The effects of this restructuring have surfaced during the last two years. All told, $500 million has been sunk into the refrigerator division in that time, with $100 million going toward an automated factory in Columbia, Tennessee to produce a new, more efficient rotary compressor.

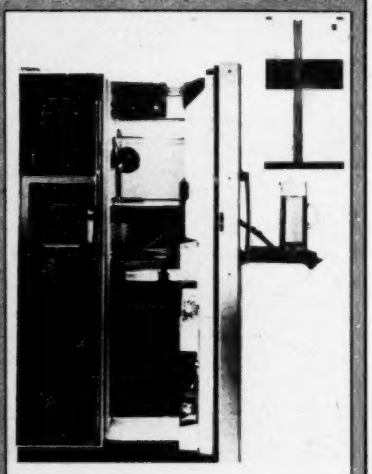
Virtually every model has been updated since that time. New units were added to fill in sizes in the important top-mount category, which captures the bulk of industry sales, and a total redesign is in the works. Side-by-side offerings have been strengthened with the introduction 24-cubic-foot models with electronic control, and most recently, with the addition of a 27-cubic-foot unit that is viewed by GE as much as a statement of technology as a refrigerator.

The company has also moved into niche product categories that it had previously left untapped: compacts were added in 1985, and bolstered with two "deep-door" models this year. 1986 marks the debut of a first bottom-mount unit, and a recently announced line of chest and upright freezers as well. No potential stone is being left unturned.

Most notable among the new entries is the 27-foot side-by-side, dubbed SpaceCenter 27. According to GE, the unit addresses virtually every consumer need currently asked for in the marketplace. Capacity has been extended three-cubic-feet from GE's previous top-of-the-line, without violating the standard size cutout width of 36 inches (height has been increased by two inches and depth by 1½ inches to gain the extra capacity).

To handle one gallon jugs or three liter bottles, the doors have been fully redesigned with new stable shelving and ducting from the freezer to keep containers as cold as they would be if they were on an interior shelf.

For convenience, the unit includes a water/ice dispenser on one door, and on the other, a Refreshment Center door/countertop for easy access to drinks and snacks. Added to the GE line for the first time are Quick Serve food containers that slide from racks beneath the top shelf and pop directly into a microwave. An electronic system monitors operation for improved reliability.



GE calls its SpaceCenter 27 the state-of-the-art in refrigerator technology.

"In my opinion, this is the most innovative product to hit the market since the original water and ice dispenser back in the late sixties," Higgins says.

The unit should retail for $1,800-$1,900, and even at that price, Higgins expects the model to account for as much as 20 percent of the company's side-by-side sales in its first year. □

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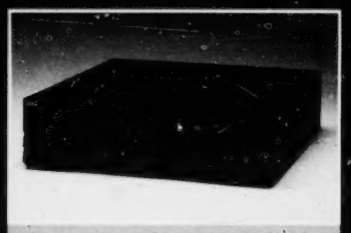
VIDEO SOFTWARE

VSDA's Mickey Granberg offers a front row perspective on the changing market.



HOME ELECTRONICS

Innovative twists in video hardware bring some new angles on profits.

TELECOMMUNICATIONS

Exciting technology and low price points typify the latest offerings.

APPLIANCES

MART charts the range of product available today from overseas suppliers.

THE RISE AND FALL OF PACIFIC STEREO

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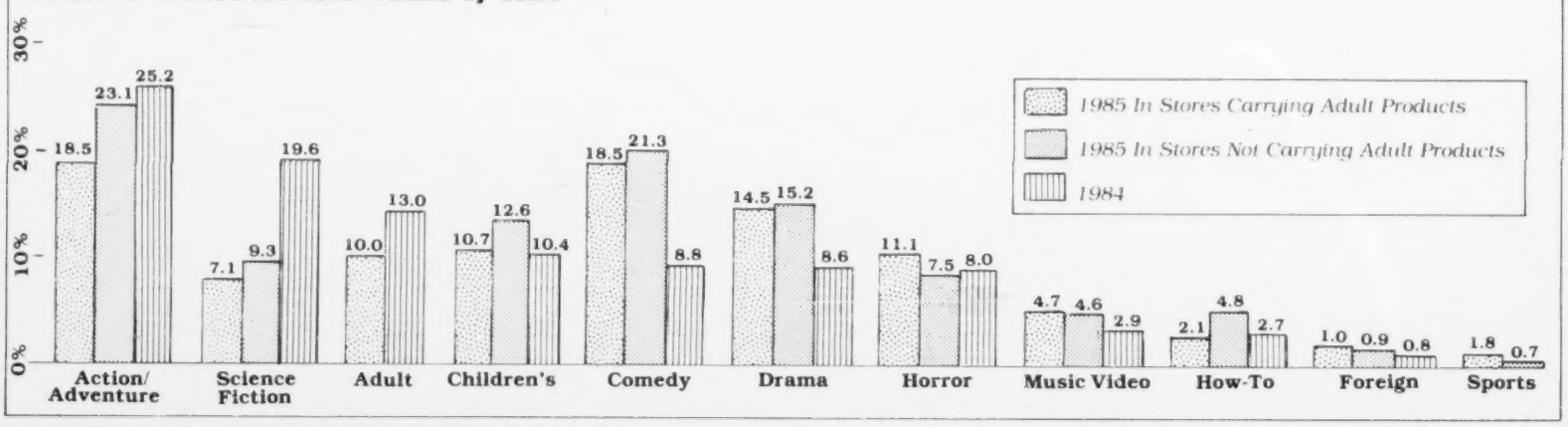
Highlights from VSDA's annual membership survey

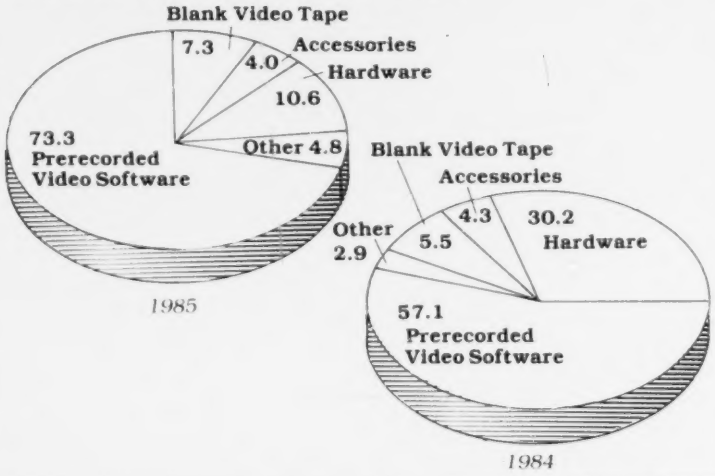
The findings presented here are based on statistical data provided by 40 percent of VSDA's membership on February 1, 1986. The association has more than 3,000 members representing some 14,000 stores. "Prerecorded" refers to prerecorded video software.

Percent of Prerecorded Dollar Volume: Sales Versus Rentals

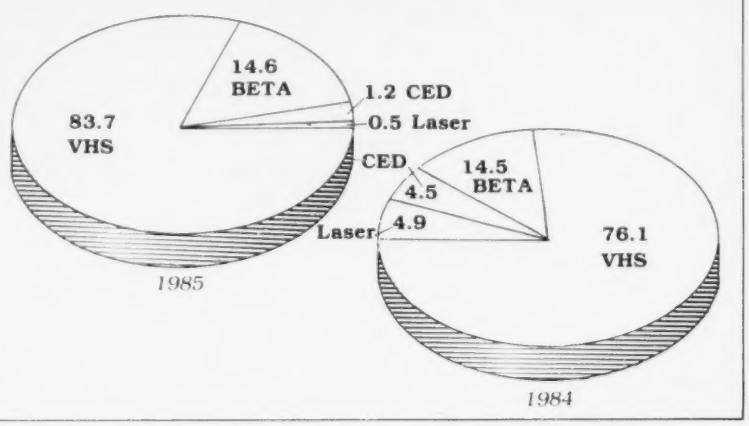
Percent of Prerecorded Dollar Volume by Genre



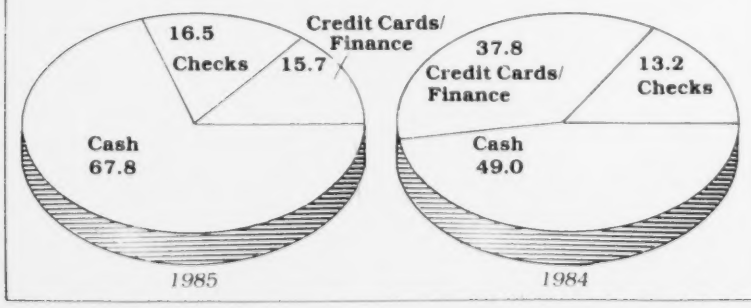
Percent of Total Dollar Volume by Product Category



Percent of Prerecorded Dollar Volume by Format



Percent of Total Dollar Volume Done In ...



	1985	1984
Average Prerecorded Video Software Sale Transaction	$ 37.23	$ 42.66
Average Prerecorded Video Software Rental Transaction	2.66	Not Available
Average Number of Titles Per Store	1,968	1,578
Average Number of Inventory Units per Store	2,589	2,321
Average Number of Stores per Owner	7	4.6
Average Number of Full Time Employees	3	3.2
Average Number of Part Time Employees	4	3.0

Extending the limbs of distribution

Video software is blazing uncharted territories, and finding new locomotives to pull the gravy train

The shift in distribution strategies for prerecorded videocassettes has paralleled two developments in the home video market. The first is the proliferation of VCR households, from 83,000 in 1976 to an anticipated 36 million at the end of this year. Next is the expansion of interest in fare other than contemporary hit films, which once accounted for better than 95 percent of the market in the early 1980s, and now represents about 70 percent of program supplier shipments to dealers.

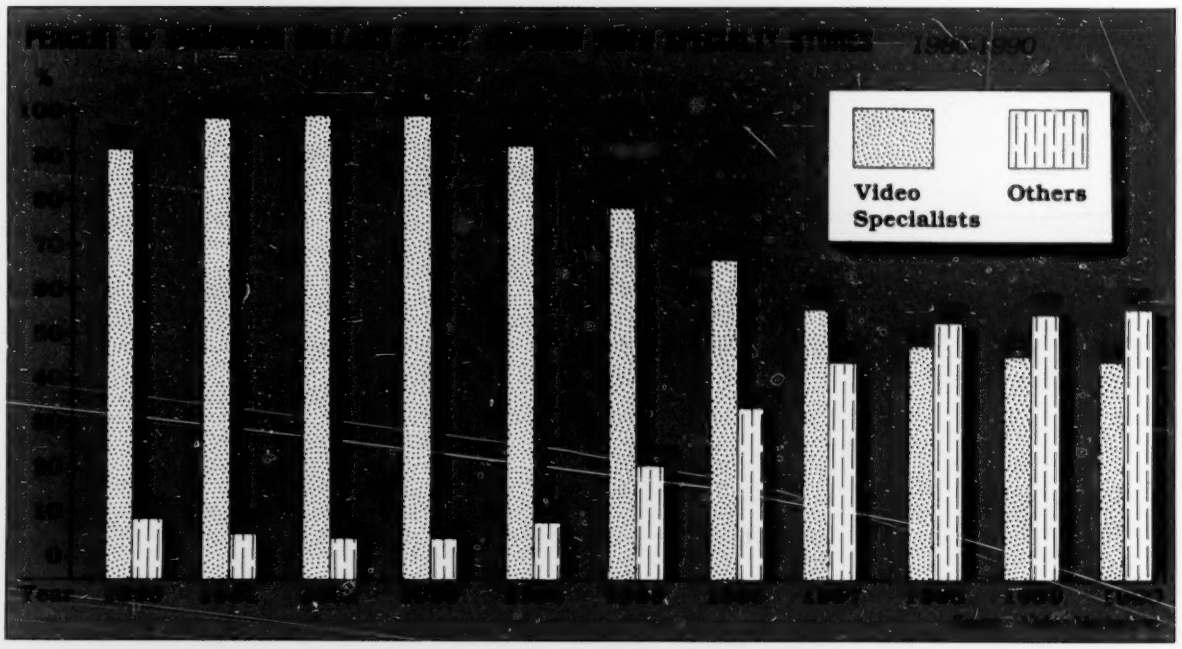
The growth of the VCR, and the broadening demographics of the VCR household, has attracted mass merchants and large volume retailers eager to participate in the video boom. As a result, video software specialty dealers, who grabbed 91 percent of the prerecorded video market in 1980, will capture 67 percent of the market this year. And their share could drop to 44 percent by 1990.

Looked at from the other side, non-specialty outlets—including direct marketing (by mail and TV/cable advertising), book stores, record stores, convenience outlets, supermarkets, drug stores and others—were buying only nine percent of program suppliers' output in 1980. That figure should hit 33 percent this year, and 56 percent by 1990.

At least 90 percent of prerecorded videocassetes of feature films are funneled through the approximately 20-25 major wholesale distribution operations in the U.S. The three largest—Des Moines, Iowa's Commtron; Niles, Illinois' Sound/Video Unlimited and New York City's Metro—account for approximately 50 percent of the market. The overwhelming majority of cassettes handled by these wholesalers are bound for video specialty stores.

Industry pricing is structured to give the wholesaler margins of 10-12 percent, but margins are frequently pushed into 7-8 percent range on the hottest titles because of competition and the need to meet program suppliers' quotas. Retailers typically purchase inventory from 2.6 wholesalers in a three month period, though the Hollywood studios and independent suppliers have attempted to encourage greater loyalty by cutting the number of wholesalers they use in any given area.

While the studios and independents are maintaining the wholesale channel for distributing feature films to video specialty dealers, they are also looking to supply larger accounts directly. Their efforts have not met the enthusiasm the studios had hoped for. CBS/Fox, for example, had anticipated selling at least 50 accounts direct by June of this year, but had lined up only a dozen.



But direct sales can be expected to gain momentum thanks to the large base of installed VCRs and the program suppliers' increased emphasis on pricing video to sell. Indeed, the average retail price for a prerecorded cassette (including all program genres) is projected by *Video Marketing Newsletter* to fall from $41.52 last year to $17.25 in 1990.

The extravagant success of non-theatrical titles such as Jane Fonda's various exercise tapes, and *The Making of Michael Jackson's "Thriller"* have frequently misled people into unreasonable expectations for non-film programming. Alas, there is no standard pattern in the sales or distribution of such fare.

Though program suppliers have often complained of a lack of interest shown by specialty dealers and wholesalers in non-theatrical programming, the market for special interest cassettes remains a significant factor not so much in unit as in dollar volume—particularly at the retail level. The reason? Non-film fare *sells* rather than rents.

The low unit volume, compared to feature films, means that wholesalers are less interested in such programs. Similarly, video specialty retailers who are geared to renting cassettes do not want to tie up capital in slower moving sale items. Thus the distribution and sales of non-theatrical programming is falling to alternative hands.

The prospects for non-theatrical fare are greatest in specialty stores and/or departments catering to the subject area—golf and fishing tapes in sporting goods outlets, for example. This often means cultivating highly specialized distribution through operators servicing those stores with other types of merchandise.

This strategy has been successfully employed by 3M for about two years: 3M distributes a line of fishing tapes to outlets carrying its fishing tackle. Such alliances can be expected to cut across the full range of mass merchant and large volume retailers as these outlets, and other non-video specialty dealers pull toward their 56 percent share of the home video market in this decade. □ *Ira Mayer*

SUPER SELL-THROUGH SUPERMARKET—Distribution may be shifting away from the specialists, but one video retailer has grabbed the bull by the horns to make sure it doesn't get away. On June 8, New York's Video Shack added a second tier to its sales-only location at Broadway and 49th Street, featuring some 10,000 titles spread out over 12,000 square feet. Most important, the new Superstore brings the cassettes out from behind the glass, so customers can get their hands on them. The result: Video Shack says the average number of tapes per customer has doubled from two to four in the store's first eight weeks.